

# **Wisconsin Tax Heaven**

## **The Corporate Contribution to State and Local Tax Revenue**

December 4, 2006

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## **Public Structures**

### **What we value in Wisconsin**

"We understand and appreciate that what breathes life and hope and happiness into our 'homes' is the quality of our neighborhoods, jobs, schools, parks, services, medical care, and transportation."

Wisconsin Realtors Association



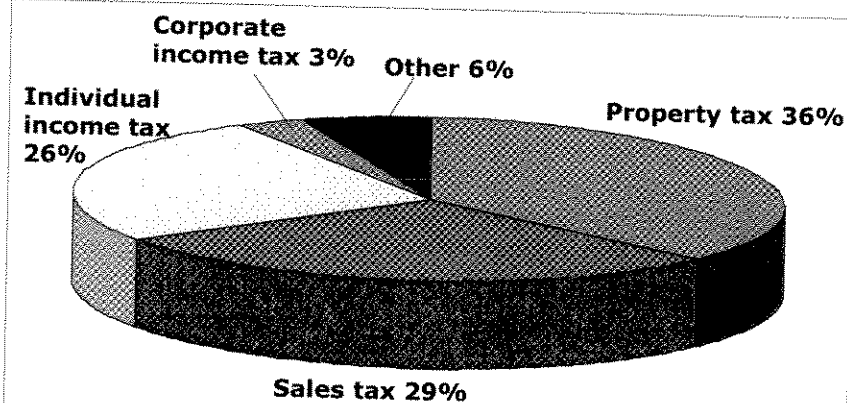
"Wisconsin counts among its many assets..."

- A skilled, adaptable and dependable labor force
- A highly developed infrastructure
- An educational system among the best in the country...
- An exceptional quality of life...
- Abundant, well-managed natural resources
- Excellent ground, rail and air transportation..."

Forward Wisconsin

## Taxes: Our collective investment in Wisconsin's high quality of life

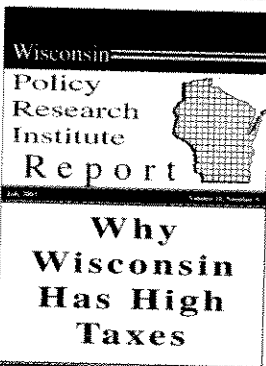
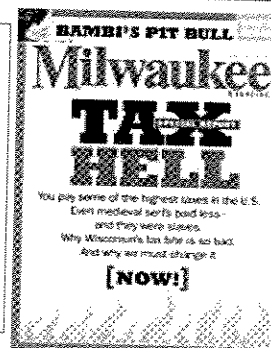
Wisconsin state & local tax revenue 2004



Source: Federation of Tax Administrators

## The attack on taxes

Three examples of the claim  
that Wisconsin is overtaxed



New Report Further Solidifies Wisconsin's Tax Hell Status, Need  
for Green's Tax and Spending Limits

Green calls Wisconsin's high tax burden the "single greatest hurdle" facing our state

## Property tax

The largest source of revenue for Wisconsin's state and local services



\$7.4 billion in Wisconsin property taxes (2004) ...

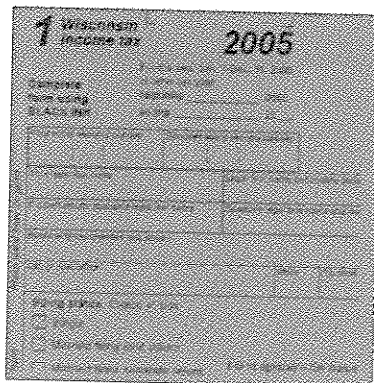
... equal to 4.3% of total personal income ...

... which is **8<sup>th</sup> highest** among the 50 states

Sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis

## Individual income tax

A second revenue source



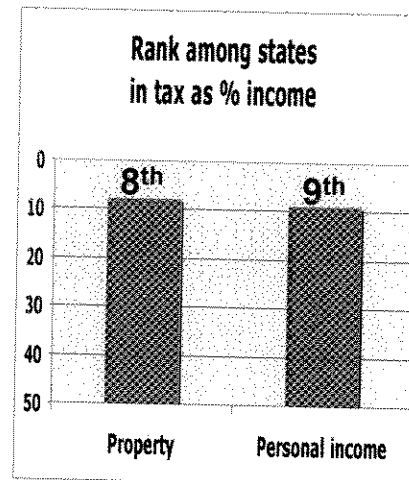
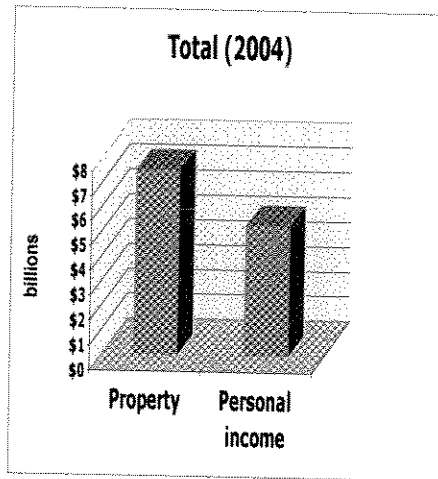
\$5.3 billion in individual income taxes (2004) ...

... equal to 3.0% of total income ...

... which is **9<sup>th</sup> highest** among the 50 states

Sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis

## The two 'Attention-getters' in state and local taxes



Sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis

## The story usually stops there



**James S. Haney**

President, Wisconsin  
Manufacturers &  
Commerce

(April 2006)

**"Our tax burden  
remains among the  
highest in the nation.  
We have ranked in the  
Top 10 for decades—it's  
a chronic problem that  
needs to be solved."**

**But there's so much  
more to this tax story**

## Wisconsin has other revenue sources that are below the national average Sales (& excise) taxes



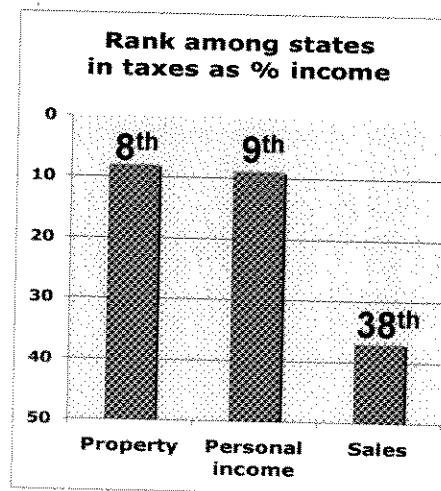
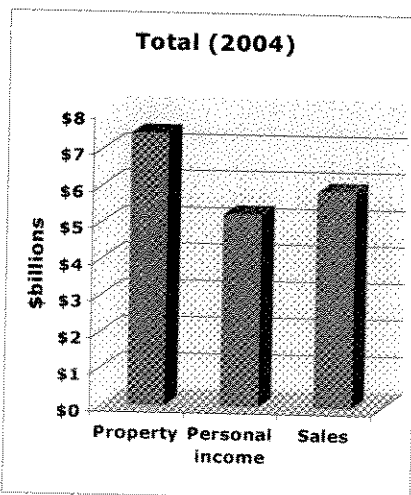
\$5.9 billion in general sales  
taxes and taxes on gasoline,  
liquor, tobacco, utility bills  
(2004) ...

... equal to 3.4% of total  
income ...

... which is **38<sup>th</sup>** among the  
50 states

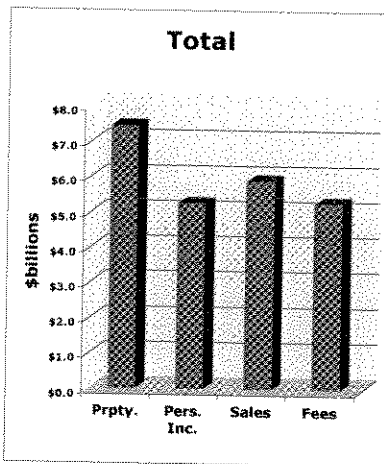
Sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis

## Wisconsin sales tax is low compared with other states



Sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis

## Another Wisconsin revenue source below the national average: State and local fees



\$5.3 billion in charges  
and fees (2004) ...

... equal to 3.1% of  
total income ...

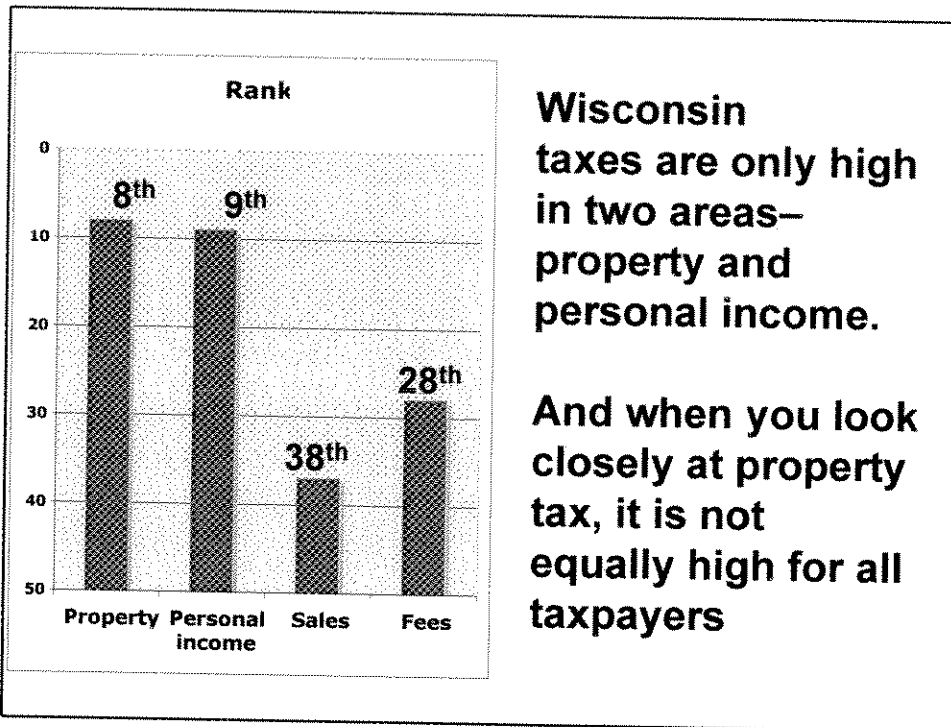
... which is **28<sup>th</sup>** among  
the 50 states

Sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis

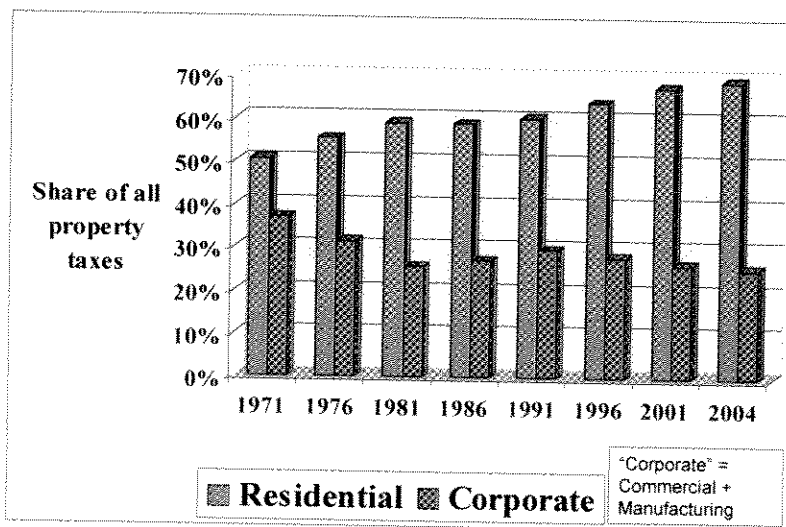
## Fees are lower in Wisconsin

- Toll roads:
  - Wausau to Madison (143 miles) \$0.00
  - Florida's Turnpike (143 miles) \$8.60
- Auto registration:
  - Wisconsin \$55
  - California \$227
- Library fee:
  - Wisconsin \$0.00
  - Illinois \$50/six months
- College Tuition
  - UW-Madison \$6,220 (engineering undergrad)
  - Univ. Texas-Austin \$8,432 (engineering undergrad)





## Homeowner property taxes grow as corporate share drops



Source: Wisconsin Legislative Fiscal Bureau

## Doesn't the Wisconsin Constitution require "uniform" property taxes?

### The Uniformity Clause

#### ARTICLE VIII

#### FINANCE

Rule of taxation uniform; income, privilege and occupation taxes. SECTION 1. [As amended Nov. 1908, April 1927, April 1941, April 1961 and April 1974] The rule of taxation shall be uniform but the legislature may empower cities, vil-

But the Constitution does allow property to be exempt from tax

### Some property tax exemptions

Category	Exempt value	Property tax if not exempt
Manufacturing machinery & equipment	\$11.9 billion	\$245 million
Pollution abatement equipment	Not available	Not available
Computers	\$3.1 billion	\$74 million
Manufacturing inventory	Not available	Not available

Sources: Wisconsin Departments of Revenue and of Administration



**Corporations enjoy many tax cuts  
unavailable to the average household**  
**Here are some sales tax exemptions**

<b>Category</b>	<b>Value of exemption</b>
<b>Manufacturing machinery &amp; equipment</b>	\$159 million
<b>Vehicles sold to commercial carriers</b>	\$24 million
<b>Legal services</b>	\$113 million
<b>Architectural, engineering and surveying services</b>	\$75 million
<b>Accounting services</b>	\$56 million
<b>Advertising</b>	\$103 million
<b>Computer services</b>	\$136 million
<b>Management consulting/public relations</b>	\$56 million
<b>Credit rating and collection services</b>	\$10 million

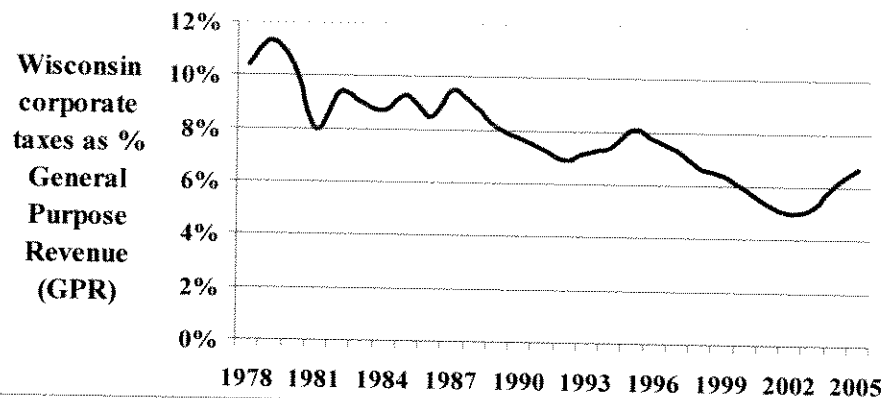
**And there are *many* credits  
for the corporate income tax**

<b>Income tax credit program</b>	<b>Value 2004</b>
<b>Manufacturing sales and use tax</b>	\$39 million
<b>Research expense</b>	\$17 million
<b>Research facilities</b>	\$1 million
<b>Dairy and Livestock investment</b>	\$13 million
<b>Farmland Preservation</b>	\$13 million
<b>Farmland Tax Relief</b>	\$11 million
<b>Historic Rehabilitation</b>	\$2 million
<b>Development Zone</b>	\$56 million (2001-'04)

Source: Wisconsin Legislative Audit Bureau

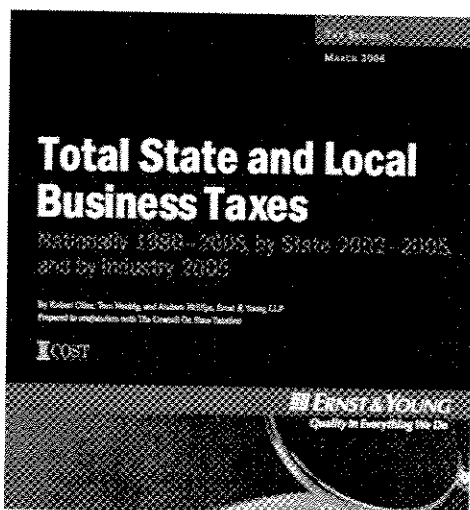
10 down to 6% of total

### Indeed, corporate income tax is a declining share of state tax revenue



Source: Wisconsin Department of Revenue

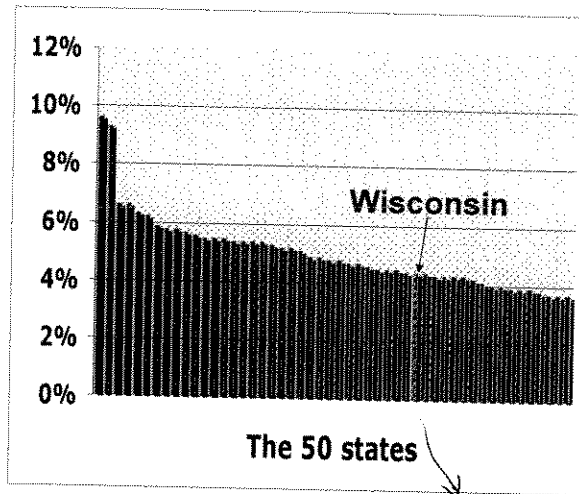
### The business community's own measure of business taxes



Ernst & Young, the  
second largest  
accounting firm in  
the U.S., publishes  
an annual review of  
state and local  
business taxes

Sources: Ernst & Young; Inside Public Accounting

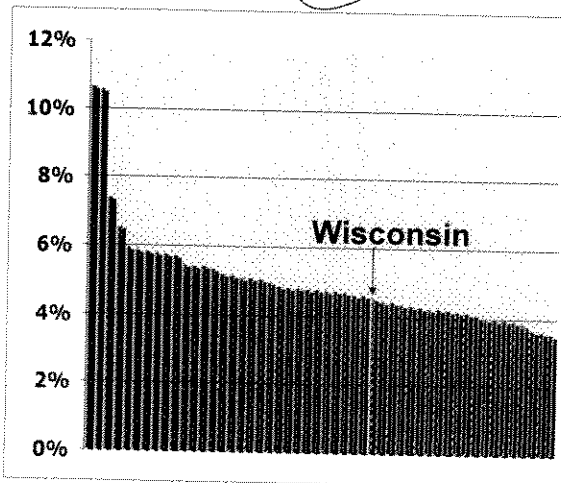
## Ernst & Young on Wisconsin Method A: 33<sup>rd</sup> among the states



Total business taxes as a percentage of private-sector gross state product

Source: Ernst & Young

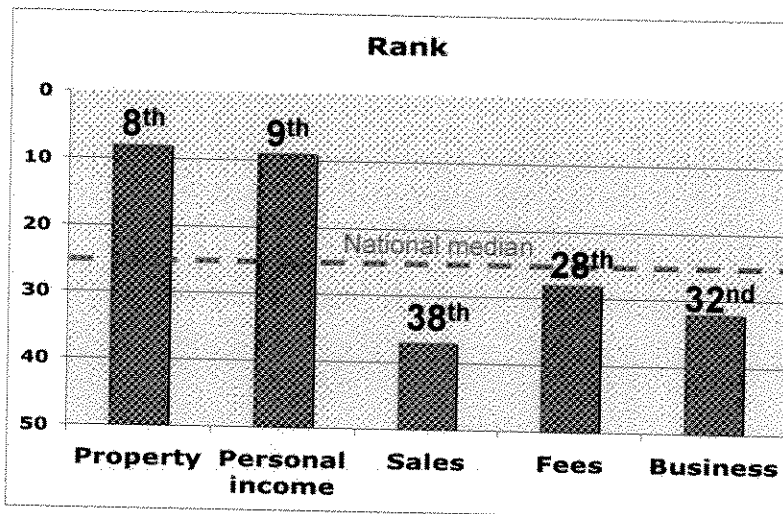
## Ernst & Young on Wisconsin Method B: 31<sup>st</sup> among the states



Total business taxes as a percentage of total personal income

Source: Ernst & Young

## An accurate view of Wisconsin's rank among states



Sources: U.S. Census Bureau; U.S. Bureau of Economic Analysis; Ernst & Young

TAX Burden

## Business brags about low taxes



Forward Wisconsin is a state marketing and business recruitment organization.  
<http://forwardwi.com>

- "Wisconsin business taxes are lower than those in 35 other states."
- "Wisconsin ranks fourth lowest in the nation in business taxes as a percent of all state and local taxes."
- "The state's business-friendly attitude is reflected in positive business tax changes that have been made in every biennial legislative session since the early 1970s."
- "Corporate Income Tax... rate has not been changed in the past 20 years."
- "Wisconsin's business taxes are among the lowest in the country."

BIZ TO BIZ  
 Communication

## Wisconsin corporate income tax: Two-thirds of firms pay zero tax

Gross receipts (2003)	# of firms	% with \$0 net tax
\$0 to \$100,000	14,146	80%
\$100,000 to \$1 million	17,274	68%
\$1 million to \$10 million	12,524	57%
\$10 million to \$100 million	6,425	58%
Over \$100 million	4,275	62%
<b>Total corporate filers</b>	<b>54,644</b>	<b>67%</b>

Source: Wisconsin Department of Revenue

*'C' CORPORATIONS*

## An insider's view of corporate income tax

Including previously undisclosed Wisconsin  
income tax payments by individual companies

**But some precautions are  
necessary, in order to  
avoid violating state law.**



## How to get income tax data Form P-100 and its 'secrecy clause'

### APPLICATION TO ASCERTAIN WISCONSIN NET INCOME TAX REPORTED AS PAID OR PAYABLE

Wisconsin Department of Revenue  
P.O. Box 7870  
Madison, WI 53707-0780  
Phone: (608) 261-6000  
Fax: (608) 261-6001

Date

I, \_\_\_\_\_

whose address is \_\_\_\_\_

of \_\_\_\_\_  
County of \_\_\_\_\_  
State of \_\_\_\_\_  
do hereby request application to ascertain the Wisconsin income tax reported as paid or payable for the year \_\_\_\_\_

Name of taxpayer

Address of taxpayer

Business or occupation

Is this information a statement for any person other than the taxpayer? (If yes, please name and address of that person. This is a corporation, partnership, or other entity.)

Signature for requesting this information

By making this application I hereby affirm and declare that I understand the provisions of Section 71.78(2) of the statutes relating to the divulgement, publication, or dissemination of information obtained from the above stated Wisconsin income tax return, and I am not a member of a professional group or body, or a foreign newspaper.

Notary Public

State of \_\_\_\_\_

County of \_\_\_\_\_

On this day of \_\_\_\_\_

to \_\_\_\_\_

the following person, personally appeared \_\_\_\_\_

known to me as \_\_\_\_\_

in the presence of \_\_\_\_\_

and acknowledged that he executed the same for the purposes and on the date stated above.

Notary Public

State of \_\_\_\_\_

County of \_\_\_\_\_

On this day of \_\_\_\_\_

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Notary Public

State of \_\_\_\_\_

County of \_\_\_\_\_

On this day of \_\_\_\_\_

to \_\_\_\_\_

"I hereby affirm and declare that I understand the provisions of Section 71.78(2) of the statutes relating to the divulgement, publication, or dissemination of information obtained from the above stated Wisconsin income tax return..."

## The law and its 'loopholes'



Wisconsin Department of Revenue  
71.78 Confidentiality provisions.  
Official Publisher of the Wisconsin Statutes

"...no person may divulge or circulate ... information ...  
...This subsection does not prohibit publication by any newspaper ...  
... or prohibit any public speaker from referring to such information in any address ..."

## Some national brands

Company	2003 Wis. income tax	2003 profits
Coca-Cola	596 K	\$0.7 billion
Exxon Mobil	913 K	\$21.5 billion
Home Depot	1,161,896	\$3.7 billion
Kimberly-Clark	0	\$1.7 billion
Kraft Foods	0	\$3.5 billion
McDonald's	0	\$1.5 billion
Merck	0	\$6.8 billion
Microsoft	0	\$7.5 billion
PepsiCo	0	\$3.6 billion
Target	547 K	\$1.6 billion
Wal-Mart	547 K	\$8.0 billion

Source: Wisconsin Department of Revenue

## Biggest Wisconsin public firms

Company	2003 Wis. income tax	2004 tax
Johnson Controls	0	- UNKN
Manpower	0	0
Kohl's	0	-
Harley-Davidson	0	-
Rockwell Automation	0	-
Fiserv	0	-
Marshall & Ilsley		
Briggs & Stratton	2,428,975	-
Snap-on	0	0
Oshkosh Truck	2,619,019	-

Sources: Wisconsin Department of Revenue; The Business Journal of Milwaukee

Largest Wisconsin public companies, continued		
Company	2003 Wis. income tax	2004 tax
The Manitowoc Co.	0	0
MGIC Investment	0	0
A.O. Smith	0	0
Modine Manufacturing	74 K	278 K
Banta	0	85 K
Joy Global	0	—
Sensient Technologies	0 <i>UNW. Apps</i>	0
Wausau Paper	0	0
School Specialty	0	0
Associated Banc-Corp	0	0
Journal Communications	0	0
Actuant	0	0
Brady	0	—

Sources: Wisconsin Department of Revenue; The Business Journal of Milwaukee

- current change  
WMC

- SUBSIDY -  
1,253,017  
MIS 2,553,317

Largest public companies, continued		
Company	2003 Wis. income tax	2004 tax
Bucyrus International	0	0
Marten Transport	44 K	22 K
Gehl	0	0
Johnson Outdoors	0	—
Anchor BanCorp	2,450,690	
The Marcus Corp.	36,373	
Weyco Group	804 K	1,453,579
Twin Disc	0	0
Ladish	0	0
Badger Meter	125 K	418 K
Bank Mutual	61 K	0
State Financial Services	0	0

Sources: Wisconsin Department of Revenue; The Business Journal of Milwaukee



## Case study: Johnson group

	2000	2001	2002	2003	2004
Johnson Bank (Milwaukee)	-	-			
Johnson Bank (Racine)					
Johnson Financial Group					
Johnson Outdoors					-
JohnsonDiversey					
S.C. Johnson & Son	-	-			-

### JohnsonDiversey bonuses grow

"In the past year, JohnsonDiversey Inc. has laid off 10 percent of its staff, sold a major business and reduced its debt by about 40 percent. Now its top management is headed toward cash incentive payments ranging from \$800,000 to \$4.4 million each." (*The Business Journal of Milwaukee* Nov. 17, 2006)

Source: Wisconsin Department of Revenue

*Where Paying TAXES*

## Case study: Banks

### Big Firms Avoid State Tax Banks Especially Aggressive In Using Loopholes

**The Capital Times :: FRONT :: 1A**

Wednesday, May 14, 2003

"... Banks in Wisconsin have been especially aggressive in their use of shell subsidiaries to reduce their tax liability. The Department of Revenue now estimates over 80 percent of state banks have established subsidiaries in Nevada, a state with no corporate income tax..."

### 4 Banks Cut State Tax Deal

Monday, July 12, 2004

"... Department of Revenue officials contend state law prohibits them from releasing details of individual audits and settlements..."

## Banks: M&I, the state's biggest

	'97	'98	'99	'00	'01	'02	'03	'04
Marshall & Ilsley Corp. (HOLDING CO)	0	0	0	6M	295K	0	0	0
M&I Marshall & Ilsley Bank	420K	574K	780K	1M1	3 mi	3 m	5M1	n.r.
Marshall & Ilsley Trust Co.	-	-	-	2M5	2m3	1m8	2M0	1M1
M&I Bank of Mayville	-	-	-	-	4K	3K	2K	3K
M&I Marshall & Ilsley Bank (Fond du Lac)	NR	4	4	n.r.	n.r.	n.r.	n.r.	n.r.
M&I Marshall & Ilsley Bank (Green Bay)	n	n	n	n.r.	n.r.	n.r.	n.r.	n.r.
M&I Marshall & Ilsley Bank (Kenosha)	4	4	4	n.r.	n.r.	n.r.	n.r.	n.r.

Source: Wisconsin Department of Revenue

n.r. = "no record"

- = did not request or not yet received

## Banks: Associated, #2 in state

	'00	'01	'02	'03	'04
Marshall & Ilsley Corp.					
M&I Marshall & Ilsley Bank	AS Approver				n.r.
Marshall & Ilsley Trust Co.					
Associated Banc-Corp	0	0	0	0	0
Associated Bank	0	0	0	0	-
Associated Trust Co.	151K	0	0	0	0

Source: Wisconsin Department of Revenue

n.r. = "no record"

- = did not request or not yet received

## Banks: Settling the Nevada issue?

	'00	'01	'02	'03	'04
AnchorBank	128K	0	2m.1	2m.4	0
Business Bank (Appleton)	0	0	31K	95K	229K
Charter Bank Eau Claire	0	45K	254K	428K	660K
First Banking Center	0	0	0	0	632K
First Business Bank-Madison	0	0	0	0	0
First Business Bank-Milwaukee	0	0	0	0	0
First National Bank in Manitowoc	0	0	0	181K	418K
Great Midwest Bank	0	178K	491K	456K	33K
National Exchange Bank	0	0	0	0	1M.2
Ozaukee Bank	0	0	306K	671K	542K
Park Bank	0	45K	103K	162K	147K
Peoples Bank of Wis.	0	0	0	84K	489K
Wauwatosa Savings Bank	0	0	210K	177K	338K

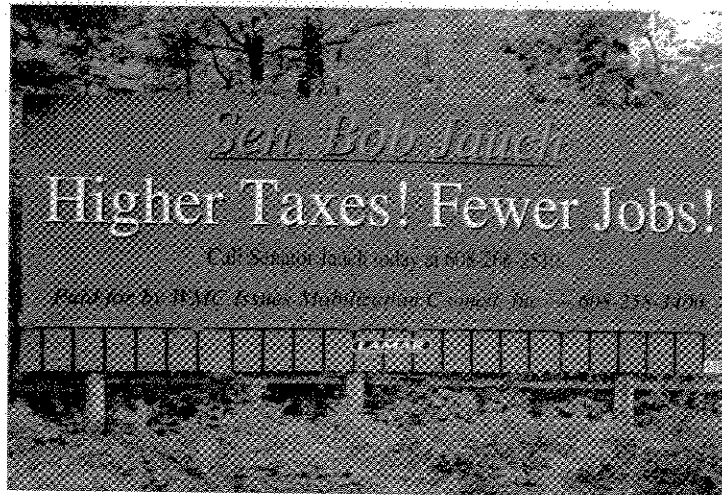
Source: Wisconsin Department of Revenue

NEVADA GAMING

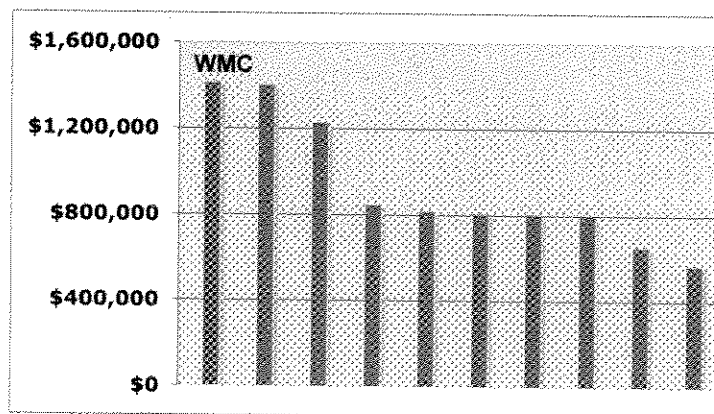
## Wisconsin Manufacturers & Commerce (WMC) Leading the fight for lower taxes



## WMC's Anti-tax campaign: Advertising in all media



## WMC: No. 1 lobbyist Most lobbying spending in Wisconsin Top 10 lobbyists: 2005-06



Source: Wisconsin Ethics Board

## WMC leadership: Cut our taxes!



Terry D. Growcock  
Chairman and Chief Executive Officer  
The Manitowoc Company, Inc.

WMC Chairman Terry D. Growcock

"Growcock ... cited what he called **excessive corporate taxation** ... Growcock said Wisconsin's **corporate tax rate is high ...**"

(Manitowoc Times Reporter Jan. 15, 2006)

WMC President James S. Haney

"Wisconsin should strongly consider: **Eliminating the corporate income tax**—That's right, not reducing it, not providing more credits, getting rid of it altogether."

(WMC statement, June 26, 2006)

## "Excessive corporate taxation"

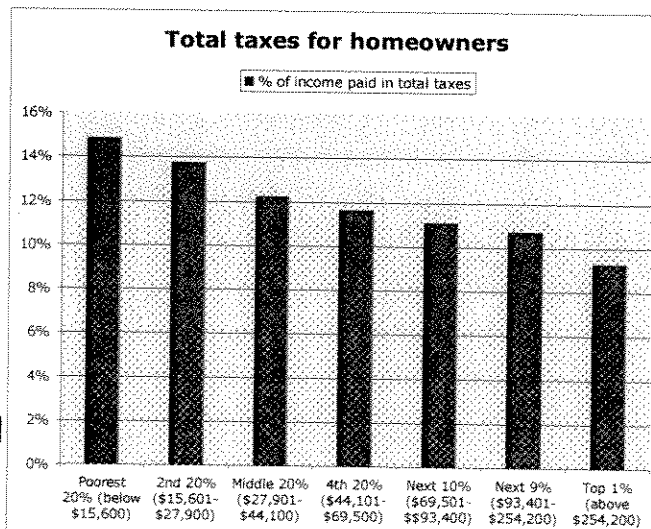
for WMC's Board of Directors?

Company	2003 Wis. income tax	2004 tax
Ariens	0	0
Associated Banc-Corp	0	0
Badger Meter	125K	418K
Castle-Pierce Printing	0	— NR
Church Mutual Ins.	309K	340K
ConAgra	0	124K
D&S Manufacturing	146K	151K
Deere & Co.	0	NR
Emerson	0	0
Greenheck Fan	0	0
Hutchinson Tech.	0	0

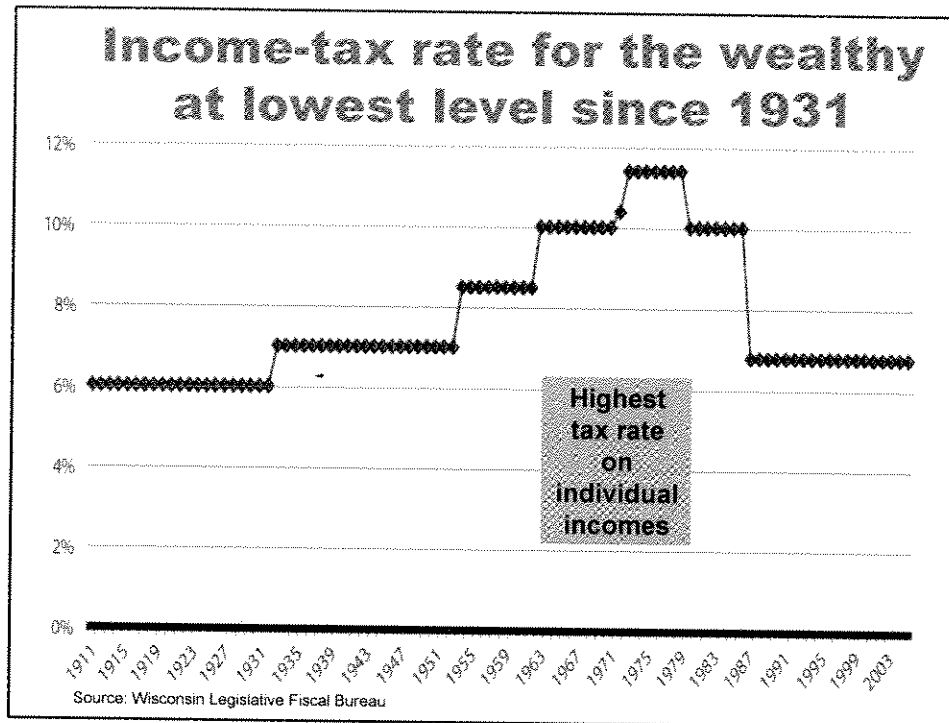
Company	2003 Wis. income tax	2004 tax
J.P. Cullen & Sons	0	0
Janesville Sand & Gravel	112 K	127K
Lakeside Foods	476K	120K
Market & Johnson	0	0
Northwestern Mutual	520K	NA
Quad/Graphics	2 m 675,187	2,164,306
Sentry Insurance	1,775,000	2,1758,000
Serigraph	0	0
Snap-On	0	0
The Manitowoc Co.	0	0
The Swiss Colony	320 K	470K
U.S. Bank	298K	1 m 245,559
Wausau Paper	0	0
Webcrafters	0	0

## So who does pay for Wisconsin's quality of life?

Under the current tax system, lower income married homeowners have the highest burden of state and local taxes



Source: Wisconsin Department of Revenue: Wisconsin Tax Incidence Study



## Tax Cut Fever

### Causes:

- Stagnant wages
- An unfair tax system that creates higher taxes for working families
- Inaccurate propaganda to rationalize corporate tax welfare
- Revenue shortfalls that lead to annual cuts in state and local services



**Prognosis:** A state losing the very qualities that attract people and businesses

## **How do we keep Wisconsin a wonderful place to live?**

- Ensure there is adequate revenue to maintain schools, roads, the environment and the local services that citizens need
- Make sure all entities are paying their fair share
- Make sure revenue and spending decisions are based on comprehensive and accurate information



## **Wisconsin needs better laws for disclosing who pays what in taxes**

**Even WMC pushes 'transparency'**



### **Wisconsin's Business Tax Climate Needs Serious Improvement**

By Jeff Schoepke, Director, Tax & Corporate Policy, Wisconsin Manufacturers & Commerce

**"The more transparent a tax system, the easier for taxpayers to know what taxes they actually pay and for what purpose."**

Source: Wisconsin Manufacturers & Commerce <http://www.wmc.org/display.cfm?ID=1452>



## **Wisconsin needs a tax disclosure law that shows:**

- Tax Incidence [how tax responsibility is distributed among income groups and other categories]
- Tax expenditures [a full list of tax credits and other tax cut programs for corporations that reduce state and local revenue]
- Income tax payments [easy-to-access data on corporate income tax payments]

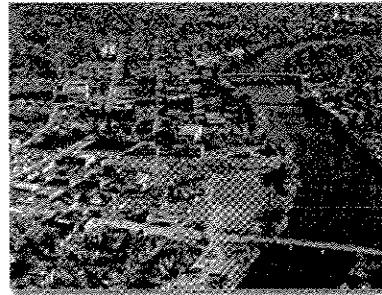
## **State auditors agree**

**"We recommend the Legislature consider enacting public disclosure requirements to improve transparency in the use of state funds for economic development projects."**

*A Review of State Economic Development Programs*  
**Wisconsin Legislative Audit Bureau**  
August 2006

**We have inherited the work of many generations who built a state that is robust, intelligent, healthy and compassionate**

**It is our responsibility to leave Wisconsin even better for the next generation**



**The tax system provides resources for that effort. Our current system is distorted. The challenge is to expose its problems and reform it so it is both adequate and fair.**